

# Firm Cited for Fraud Linked to HHH Camp

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The Rand Development Corp. of Cleveland, Ohio, a Humpty Dumpty of the business world, has had a great fall.

On Aug. 19, 1966, the firm—not to be confused with the RAND Corp. in California—was sitting atop a high wall indeed.

In a speech based on materials said to have been routinely supplied by the Interior Department, the President of the United States went to the unusual length of singling out Rand Development for its innovative role against pollution of Lake Erie.

Mr. Johnson announced that Interior's Water Pollution Control Administration had given the company "the green light" to build a new filter system. It would be "a first major step" to save the lake from man-made contamination, the President said. Even at the time this was widely believed to be an overstatement.

On the very same summer day, the Cleveland Plain Dealer carried, under a 7-column headline, a story saying that a vaccine newly devised by Rand Development was claimed to be effective against terminal cancer.

A cure "may be imminent," financial editor John E. Bryan wrote. With publication of the story, the firm's common stock, traded over the counter, surged from \$16 a share to a peak of \$54.

The great fall came a couple of weeks ago. On Dec. 13, a Federal grand jury in Cleveland indicted Rand Development and its president, James H. Rand—who prefers to be known as H. James Rand—on three counts of mail fraud and three of securities fraud. The essence of the charges as outlined in the indictment was this:

The Franklin National Bank of New York City had loaned more than \$700,000 to Universal Fiberglass Products Corp., whose president is Rand and which is

cent owned by Rand Development. Learning that Universal had operated at a loss, the bank sought more collateral from James Rand, who had personally guaranteed the loan and who was hard-pressed. To get out of the box, he and Rand Development allegedly devised a scheme to defraud the bank, investors and others.

According to the indictment, this scheme was to "cause to be published"—particularly in Pageant magazine, as well as the Plain Dealer—false and misleading claims about the efficacy of the cancer vaccine. Predictably, this sent the price of Rand Development stock zooming. It also sent hundreds of terminal cancer victims to Cleveland on a futile quest for a cure.

Thus, the indictment said, Rand and his company managed "to arbitrarily and artificially raise and maintain the market price" of the stock. This done, Rand deposited 60,000 of his own shares—"falsely and fraudulently" represented to be worth \$23 each—as collateral with the bank. Not only that: Rand priced the shares high enough that Franklin National agreed to lend him an additional \$138,000.

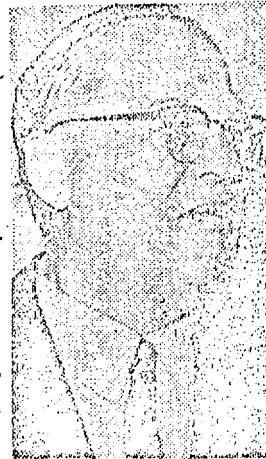
## Bought Shares

(John Bryan of the Plain Dealer said in response to an inquiry that, on the advice of a broker impressed with Rand Development's prospects in the field of water pollution, he bought 125 shares in the summer of 1966 but had sold 100 of them before his story appeared on Aug. 19. Bryan, who says he had "no thought of the vaccine," disclosed that much later he sold the rest of his holdings. He said he made less than \$200 on the entire investment.)

## Not the Only Blow

As hard a blow as the indictment was, it was by no means the only one to fall on Rand Development.

Most of the other trouble involved Universal Fiberglass



JAMES H. RAND  
... under indictment

glass, a Rand subsidiary in Twin Harbors, Minn.

After it was founded five years ago its prospects seemed bright. It had help from the Small Business Administration in the form of a \$219,000 mortgage loan, granted despite a staff recommendation that Universal be denied a so-called certificate of competency. The staff was overruled, however, in an unsigned memo saying that "it was determined"—but not saying by whom—that Universal "has the requisite capacity and credit ..."

Experts in the General Services Administration who investigated Universal's qualifications for a \$13.3 million contract for 12,714 tri-wheeled postal vehicles, called Mailsters found the firm unqualified. But when Universal got the SBA competency certificate the GSA had to give the firm the contract.

And in other strokes of good fortune, Universal got loans of \$756,000 from the Area Redevelopment Administration (now the Economic Development Administration), which also took over mortgages of \$219,000 from SBA, and \$233,000 from the State of Minnesota.

## 'Outrageous Boondoggle'

In a House speech last Jan. 22, Rep. H. R. Gross (R-Iowa) made but did not elaborate a charge that "considerable political pressure was brought to bear in this case—some of it from the highest levels of Government." He called the affair an "outrageous boondoggle."

Boondoggle or not, a lot of things went wrong. For one, Universal bought parts from its corporate parent at startling markups—333 per cent on a batch of clutch housings which Rand Development bought for \$5792 and sold to Universal for \$25,094. (Universal sold each Mailster for \$1046. The parts alone cost it only \$132 less.)

In April, 1966, a disastrous fire swept the plant, a converted railroad roundhouse that now is shut down. The SBA is suing the insurer for \$1,250,000. GSA cancelled the only partially fulfilled Mailster contract. Universal resisted bitterly, and the dispute now is pending before the GSA's Board of Contract Appeals. Neither the EDA nor the State of Minnesota has taken any legal action against Universal, but each says that it is a possibility.

## Federal Contracts

But Rand Development is not without resources in its struggle for survival. For one thing, it has some Federal contracts, particularly with the water pollution agency and another unit in Interior, the Office of Coal Research. It is well positioned to emerge as a subcontractor on at least one other proposed contract.

In addition, Rand Development has been well plugged in among intimates of Vice President Humphrey. Although a new Administration soon will be inaugurated, one of these intimates will continue to be the second-ranking Democrat on the House Public Works Committee and continue to have a good deal of clout in water pollution matters.

He is Rep. John A. Blatnik. Universal Fiberglass happens to be in an economically depressed part of his district in Minnesota, and he played a crucial role in helping it get the SBA loans and GSA contract.

In World War II, Blatnik served in the Office of Strategic Services, predecessor of the CIA, with George H. Bookbinder, who was to become Rand Development's executive vice president in New York City.

## Protest Lodged

Last Jan. 17, Blatnik protested to Max N. Edwards,

Org. 1 Rand Development Corporation  
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Interior's legislative counsel, about Rand Development's problems with Interior—"Incredible, interminable and seemingly inexcusable delays and difficulty" in negotiations about \$606,000 that the firm had claimed as overhead costs incurred in carrying out contracts with the Department.

The problem arose when Interior auditors disallowed expenses of \$95,000, including \$8000 for entertainment in New York City, \$1200 in legal fees for establishing "a product market in Israel," and \$5089 in depreciation on a Cadillac and a Mustang in Geneva, Switzerland.

Geneva was the home of Jacques Wolfgang, who received an \$11,000 consulting fee from the firm and who, while living in Switzerland, conducted a business which exported jewelry to the United States.

#### Auditors Troubled

The auditors were troubled in part because Wolfgang was not only a director of Rand Development when he acted as a consultant, but also because he owned 14,333 shares of its stock (which ranked him third; James Rand owned 83,700 and J. Elroy McCaw, chairman of the firm and a Seattle investor, 26,334).

After some agonizing, the auditors allowed the \$11,000 as an indirect cost—but with the proviso that thereafter fees would be allowed only to those consultants with whom there was an arms-length relationship.

However, the auditors held out and, a few months ago, finally prevailed, against demands from Rand Development to allow about \$25,000 in such expenses as \$2543 for a quarter-share of the cost of operating a \$455-a-month apartment at 415 East 52nd st. in Manhattan.

In the year ended March 3, 1967, according to files of the Water Pollution Control Administration, phone calls—most of all involving problems of Universal Fiberglass—from the 52d street apartment were made to Vice President Humphrey's offices on 14 occasions.

The main recipient of the calls was Humphrey aide Neal Peterson. His brother, Roger, is Universal's lawyer in Minneapolis.

#### Left His Mark

The man around whom all this activity centered—James Rand—had left his mark on Ohio.

After World War II, in which he served with distinction in the OSS as well as the Army and Air Force, he returned to Cleveland and in 1949 was picked as the city's "outstanding young man."

Prosperity and problems followed. He started his company in 1948 and in 1956 began winning Government contracts—\$10 million, all told, by the end of 1967. Some were with the Defense Department. One—of an unspecified nature—was with the CIA.

He and his associates also developed political contacts during this period. In 1964, for example, Rand's board chairman, McCaw, gave \$2000 to the Johnson-Humphrey campaign; his executive vice president, Bookbinder, gave another \$2000; one of his directors, Cleveland lawyer Robert H. Trenkamp, gave \$1000.

In the same year, the Rand company got a \$180,000 contract from the Public Health Service to look into the feasibility of a new approach to sewage disposal. Contracts with other Federal agencies followed. So did the troubles with Universal Fiberglass, including the disastrous fire of April, 1966.

It was in that month, according to the indictment, that Rand and Rand Development began to devise their scheme to defraud.

In late April, the cancer vaccine was put into production. In early May, it was injected into human beings, even though Federal regulations had not been complied with and the vaccine had not been tested "as to purity, stability, toxicity or efficacy."

In July, 1966, Franklin National became aware that in the year ended March 31 Universal had operated at a deficit and demanded additional collateral on its loans to Rand.

With this, the indictment says, the executive began disseminating optimistic but false claims about the vaccine, so as to drive up the value of the stock.

#### Test Sought

To demonstrate his confidence in claims such as that of "amazing results" in about 100 cancer victims, Rand was obliged to seek permission to test the vaccine outside of Ohio from the PHS's Division of Biologics Standards.

The Division demanded more data. Instead of complying, Rand came here on Sept. 29, 1966, for a conference with director Roderick Murray.

"Who requested that conference?" Rand was asked in a subsequent court proceeding.

"The Vice President's office asked for it, Mr. Neal Peterson," Rand testified.

Dr. Murray acknowledged a phone call from someone in Humphrey's office, but insisted that he himself had requested the conference with Rand, and would have called him in, regardless.

The next development came in January, 1967. A suspicious Securities and Exchange Commission suspended trading for four consecutive months on Rand Development stock, citing questions as to the "adequacy and accuracy" of news reports about the vaccine.

At about the same time, the Food and Drug Administration seized quantities of the vaccine and went to Federal Court in Cleveland for an injunction to halt further production and distribution.

If the vaccine had been produced in "a butcher shop, it would have been closed up by health authorities," the prosecutor, the late Merle M. McCurdy, told the Court.

In March, 1967, Judge James C. Connell granted the restraining order to stop production of the vaccine. In doing so, he said that the publicity had set off a pilgrimage to Cleveland by cancer victims "who literally had one foot in eternity."

Surprisingly, Rand did not quarrel with the judge's ruling. "If I were sitting on the bench I would have done exactly what he did," he said.

(The Vice President's office declined several months ago to discuss the Rand case in detail and yesterday Peterson could not be reached for comment).